

ASX ANNOUNCEMENT

Appendix 4E Preliminary Final Report

29th August 2019

PS&C Limited (ASX:PSZ) (PS+C) is pleased to provide the Company's Preliminary Final Report (unaudited) for the year ended 30 June 2019.

Despite being constrained by limited working capital, the resilience of our business model delivered growth in revenue from continuing operations of 31.9% and growth in underlying EBITDA of 40.1% to \$6.4m. This is in line with guidance provided to the market on 21 June 2019.

Pleasingly, the Company produced positive cash flows from operations of \$5.0m representing 78% of underlying EBITDA from continuing operations.

In the 2H19 PS+C strengthened its sales and marketing organisation to more strongly align with market opportunities and ramped up recruitment of more talent in all locations to meet the growing demand. Further overhead cost reduction measures were implemented at the back end of the financial year that will impact positively on earnings in FY20.

The significant structural changes made continue to mature, leading to more efficient teaming across sales, recruitment and administration making it easier to do business with our clients. The changes and actions taken throughout the year has meant that PS+C is well poised for further growth in the year ahead.

FY19 at a Glance

During the year we divested the Allcom Networks business as it was the Company's view that the business was not cohesively aligned to its core strategy and would not provide PS+C with any competitive advantage moving forward. During the FY we acquired Artisan Consulting, a specialised Salesforce Partner to strengthen our existing Salesforce service lines. The elevation to a Gold Tier Salesforce Partner is important as we continue to build out our capability in the world's leading cloud-based CRM platform.

Highlights (excluding discontinued operations)

- Overall operating revenue up 31.9% to \$83.3m (pcp: \$63.2m)
- Group underlying EBITDA up 40.1% to \$6.4m (pcp: \$4.5m)
- Positive cash flows from operations of \$5.0m representing 78% of underlying EBITDA from continuing operations
- Defend + Secure underlying EBITDA up 46.6% to \$3.1 (pcp: \$2.1m)
- Queensland and Canberra operations delivered combined revenues of \$13.1m and a combined operating EBITDA of \$1.6m - a four-fold increase on FY18 ¹
- Subsequent to 30 June a new Debtor Finance Facility has been put into place

Commentary

Despite the normal effects of Federal Elections, PS+C's Canberra operations performed strongly adding new clients and being engaged in significant new projects towards the backend of FY19. Our Queensland operations also saw a broadening of their client base with the result being increased utilization across the consultant base at the same time overall consultant numbers grew.

We see a key industry driver being the adoption of agile methodologies which has resulted in 'mini' business transformation projects as opposed to large, multi-year plus transformations. These mini projects are shorter, more focused and provide the foundation for considerable business enhancement without the need to invest in large scale transformation programs. This landscape is playing to PS+C's strengths in the market and a large portion of the structural changes we have made support this.

The Financial Services, Federal Government, Gaming, Agriculture and Utilities sectors remain strong and will be a mainstay of the Company going forward. These sectors are expected to be the source of continued investment throughout FY20 and beyond.

¹ Excludes \$1.75m of Glass Establishment Costs in FY18 that were expensed in FY18



From our Queensland operations we delivered several innovative solutions to a number of key clients using our Design Thinking and Innovation Methodologies including the reimagining of retail spaces, running innovation hackathons and helping clients set their Customer Experience and Technology Roadmaps.

While margin pressure remained during the year, it is not expected to have any further impact in FY20. The investment made in our People and Culture function has established initiatives to attract and retain the best people possible in the industry.

Importantly, in the last quarter of FY19 we generated sales in excess of our revenue run rate which means we are improving our work pipeline, in turn providing greater confidence as we enter the new financial year.

Underlying EBITDA Bridge (excluding discontinued operations)

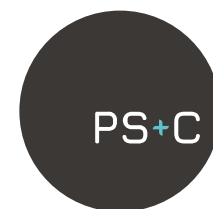
The table below is provided to enable a greater understanding and a more representative basis to assess the underlying performance of the Company against the Statutory preliminary financial results for FY19.

Line Item	FY19 (\$,000)
Preliminary Statutory NPAT	-49,424
Normalisations & Adjustments	
Finance Costs	1,049
Depreciation & Amortisation	338
Tax	666
Restructure & IPO Costs	854
Acquisition Costs	645
Goodwill Impairment	49,630
Contingent Consideration Adjustments	1070
Receiveables Adjustments	1526
Total Normalisations	55,778
Underlying EBITDA	6,354

The Company continued to restructure its operations during FY19 incurring \$0.9m of expenses that are non-reoccurring in nature which were predominately related to staff costs.

The establishment of the Debtor Finance Facility encompassed a comprehensive review of our receivables book which resulted in adjustments of \$1.5m.

Significantly, the Company incurred an impairment of the carrying value of goodwill of \$49.6m as a result of an increase in the Company's weighted cost of capital, increased overhead allocation to the cash generating units and a more conservative view of longer term forecasts which was previously announced to the market on 20 August 2019.



Strategic Vision

We have refreshed our three-year strategy to capitalise on the structural changes we have made over the past two years.

The revised strategy includes both short-term and longer-term responses to ensure PS+C is equipped to deal with challenges as they arise ensuring we retain a strategic vision of driving growth over the next three-year period. A key component of the revised strategy is moving PS+C to a capability services model which will be rolled out along with new marketing materials in FY20.

In the short-term we will focus on delivering more predictable financial performance now the new operating structure has reached the right level of maturity.

Finally, we feel strongly that further sector consolidation will occur in the short to medium term. Whilst the changes we have made have placed PS+C in strong position to grow profitably across all regions, we will openly participate in any sector consolidation if the Board feels it will deliver the right outcomes for our people, our clients and importantly maximise value for our Shareholders.

The Board is actively pursuing divestment opportunities in order to unlock value for Shareholders, including strengthening the Company's Balance Sheet.

1. Company details

Name of entity:	PS&C Ltd
ABN:	50 164 718 361
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	12.2% to	87,899,917
Revenues from continuing operations	up	31.9% to	83,300,904
Loss from ordinary activities after tax attributable to the members of PS&C Ltd	up	426.7% to	(53,489,313)
Loss from continuing operations after tax attributable to the members of PS&C Ltd	up	342.4% to	(49,424,321)
Loss for the year attributable to the members of PS&C Ltd	up	426.7% to	(53,489,313)
		2019 Cents	2018 Cents
Basic earnings per share		(19.14)	(8.79)
Diluted earnings per share		(19.14)	(8.79)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the group after providing for income tax amounted to \$53,489,313 (30 June 2018: \$10,155,815).

Please refer to the accompanying commentary.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(5.52)	(9.33)

4. Control gained over entities

Name of entities (or group of entities)	Artisan Consulting Pty Ltd
Date control gained	01 February 2019

\$

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) 150,351

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material) -

On 01 February 2019, the group acquired 100% interest of Artisan Consulting Pty Ltd. During the year ended 30 June 2019, Artisan Consulting Pty Ltd contributed \$129,761 profit before tax to the group's consolidated loss from ordinary activities. Artisan Consulting Pty Ltd reported an operating profit before tax for the full year ended 30 June 2019 of \$369,020.

5. Loss of control over entities

Name of entities (or group of entities) Allcom Networks Pty Ltd

Date control lost 22 November 2018

\$

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) (994,854)

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material) 1,454,559

On 22 November 2018, the group announced that it had successfully divested the Allcom Networks business to Crosspoint Telecommunications Pty Ltd, a business technology solutions provider offering comprehensive end-to-end managed IT solutions in voice, video, managed IT services and professional services. The decision to divest the Allcom Networks business was based on the group's view that the business was not cohesively aligned to its core strategy. The group is fundamentally an information technology services business delivering specialised services to its clients.

As a result of the sale transaction outlined above, the financial result of the business to be divested and associated group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. This impacts the current and comparative financial information for the Delivery + Cloud segment.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements are in the process of being audited and it is currently expected that an unqualified opinion will be issued, with an emphasis of matter on the preparation of the financial statements on a going concern basis.

11. Attachments

Details of attachments (if any):

An abridged set of unaudited financial statements for the year ended 30 June 2019 are presented below.

12. Signed

Signed 

Date: 29 August 2019

Glenn Fielding
Managing Director
Melbourne

PS&C Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	Consolidated Group 2019 \$	2018 \$
Revenue from continuing operations	3	83,300,904	63,153,238
Other income	4	13,447	47,930
Expenses			
Third party materials and labour		(23,146,131)	(14,470,989)
Acquisition expenses	12	(645,037)	(402,526)
Employee benefits expense		(48,115,323)	(41,979,843)
Depreciation and amortisation expense		(338,070)	(231,327)
Impairment of assets	6	(49,629,677)	(9,612,395)
Loss on disposal of assets		(44,423)	-
Write off of assets		(295)	(50)
Contingent consideration adjustments expense		(1,070,008)	(619,071)
Other expenses		(8,034,876)	(5,351,113)
Finance costs		(1,049,129)	(1,351,257)
Loss before income tax expense from continuing operations		(48,758,618)	(10,817,403)
Income tax expense		(665,703)	(355,236)
Loss after income tax expense from continuing operations		(49,424,321)	(11,172,639)
Profit/(loss) after income tax (expense)/benefit from discontinued operations	5	(4,064,992)	1,016,824
Loss after income tax (expense)/benefit for the year attributable to the members of PS&C Ltd		(53,489,313)	(10,155,815)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the members of PS&C Ltd		<u>(53,489,313)</u>	<u>(10,155,815)</u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(49,424,321)	(11,172,639)
Discontinued operations		(4,064,992)	1,016,824
		<u>(53,489,313)</u>	<u>(10,155,815)</u>
		Cents	Cents
Earnings per share for loss from continuing operations attributable to the members of PS&C Ltd			
Basic earnings per share		(17.68)	(9.67)
Diluted earnings per share		(17.68)	(9.67)
Earnings per share for loss attributable to the members of PS&C Ltd			
Basic earnings per share		(19.14)	(8.79)
Diluted earnings per share		(19.14)	(8.79)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

PS&C Ltd
Statement of financial position
As at 30 June 2019

	Note	Consolidated Group 2019 \$	2018 \$
Assets			
Current assets			
Cash and cash equivalents		4,285,600	4,686,521
Trade and other receivables		12,760,194	14,163,496
Inventories		-	19,175
Income tax refund due		-	239,485
Other		2,420,644	3,256,710
Total current assets		19,466,438	22,365,387
Non-current assets			
Receivables		-	355,557
Property, plant and equipment		684,962	1,371,857
Intangibles	6	47,256,427	100,046,002
Deferred tax		1,126,519	1,079,177
Other		-	28,338
Total non-current assets		49,067,908	102,880,931
Total assets		68,534,346	125,246,318
Liabilities			
Current liabilities			
Trade and other payables		9,450,513	10,648,429
Borrowings	7	10,300,000	12,902,026
Income tax		615,455	-
Employee benefits		902,826	1,513,972
Deferred consideration	8	7,108,502	10,316,262
Other		3,814,733	2,098,692
Total current liabilities		32,192,029	37,479,381
Non-current liabilities			
Payables		-	235,866
Borrowings		78,370	-
Employee benefits		194,707	302,597
Contingent consideration	9	1,630,434	4,498,503
Deferred consideration	10	995,295	1,750,000
Total non-current liabilities		2,898,806	6,786,966
Total liabilities		35,090,835	44,266,347
Net assets		33,443,511	80,979,971
Equity			
Issued capital	11	91,207,294	85,029,409
Reserves		593,769	818,803
Accumulated losses		(58,357,552)	(4,868,241)
Total equity		33,443,511	80,979,971

The above statement of financial position should be read in conjunction with the accompanying notes

PS&C Ltd
Statement of changes in equity
For the year ended 30 June 2019

Consolidated Group	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2017	58,643,072	69,724	5,226,496	63,939,292
Loss after income tax expense for the year	-	-	(10,155,815)	(10,155,815)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(10,155,815)	(10,155,815)
<i>Transactions with members in their capacity as members:</i>				
Contributions of equity, net of transaction costs (note 11)	5,566,783	-	-	5,566,783
Share-based payments	20,819,554	-	-	20,819,554
Employee share options/Performance rights reserve	-	810,157	-	810,157
Transfer of expired share options to retained earnings	-	(61,078)	61,078	-
Balance at 30 June 2018	85,029,409	818,803	(4,868,241)	80,979,971
Consolidated Group	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2018	85,029,409	818,803	(4,868,241)	80,979,971
Loss after income tax expense for the year	-	-	(53,489,313)	(53,489,313)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(53,489,313)	(53,489,313)
<i>Transactions with members in their capacity as members:</i>				
Share-based payments	6,177,887	-	-	6,177,887
Employee share options/Performance rights reserve	-	(225,034)	-	(225,034)
Balance at 30 June 2019	91,207,296	593,769	(58,357,554)	33,443,511

The above statement of changes in equity should be read in conjunction with the accompanying notes

PS&C Ltd
Statement of cash flows
For the year ended 30 June 2019

	Note	Consolidated Group	
		2019	2018
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		98,981,226	84,684,391
Payments to suppliers and employees (inclusive of GST)		(93,582,531)	(85,120,792)
		5,398,695	(436,401)
Interest received		13,447	35,371
Other revenue		13,262	40
Interest and other finance costs paid		(865,385)	(1,150,259)
Income taxes refunded/(paid)		397,233	(442,516)
Net cash from/(used in) operating activities		4,957,252	(1,993,765)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	12	(121,082)	569,150
Payments for prior period's business acquisition	12	(3,090,448)	(4,129,337)
Acquisition Costs	12	(269,541)	(442,779)
Payments for property, plant and equipment		(372,738)	(516,977)
Loans from/(to) related and other parties		-	(44,428)
Proceeds from disposal of business		1,090,516	-
Proceeds from disposal of property, plant and equipment		1,644	44,428
Proceeds from release of security deposits		5,502	62,217
Net cash used in investing activities		(2,756,147)	(4,457,726)
Cash flows from financing activities			
Proceeds from issue of shares	11	-	5,930,000
Proceeds/(repayment) of borrowings	7	-	(2,497,394)
Share issue transaction costs		-	(363,217)
Repayment of borrowings		(2,602,026)	-
Net cash from/(used in) financing activities		(2,602,026)	3,069,389
Net decrease in cash and cash equivalents		(400,921)	(3,382,102)
Cash and cash equivalents at the beginning of the financial year		4,686,521	8,068,623
Cash and cash equivalents at the end of the financial year		4,285,600	4,686,521

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and the settlement of liabilities in the normal course of business. During the year ended 30 June 2019, the group incurred a net loss after tax of \$53,489,313 (2018: loss of \$10,155,815) and at that date, the group's current liabilities exceeded its current assets by \$12,725,591. The above has been impacted by a \$49,629,677 intangible asset impairment charge and the classification of the group's borrowings of \$10,300,000 as a current liability.

In determining that the going concern basis is appropriate, the Directors have had regard to:

- The group has entered into an agreement with Scottish Pacific Business Finance Pty Ltd ('Scottish Pacific') to provide a receivables backed financing facility with a funding limit up to \$15,000,000 - Refer note 13: Subsequent Events;
- The group successfully renegotiated the terms of its borrowings payable to ANZ after a \$5,000,000 repayment in July 2019. The group's bank facility expires in December 2019 - Refer note 13: Subsequent Events;
- The group's cash flow forecast and budgets for the next 12 months show positive operating cash flows and an improvement in profitability/increased EBITDA;
- The group has positive net cash inflows from operating activities;
- The group's ability to raise equity; and
- The group's ability to divest business segments.

The group's ability to continue to operate as a going concern is dependent upon the items listed above. Should these events not occur as anticipated, the group may not be able to pursue its business objectives and will have difficulty continuing to operate as a going concern, including realising its assets and extinguishing its liabilities at the amounts shown in the financial statements.

Note 2. Operating segments

Identification of reportable operating segments

The group is organised into four operating segments: Discovery + Insights, Design + Process, Delivery + Cloud and Defend + Secure. Operating segments are determined by distinguishable components whereby the risk and returns are different from the other segments.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Discovery + Insights	The Discovery + Insights segment, comprising GlassandCo Pty Ltd, is involved in shaping digital ambition, strategy and business cases based on insights.
Design + Process	The Design + Process segment, comprising Systems and People Pty Ltd, Bexton IT Services Pty Ltd, Coroma Consulting Pty Ltd, Seisma Pty Ltd, NTH Consulting Pty Ltd and Artisan Consulting Pty Ltd, is involved in sourcing and providing specialist contractors to customers for medium and long term ICT projects, while also managing the payroll function for customers. It is focused on reinventing and prototyping new capabilities and journeys as part of the program.
Delivery + Cloud	The Delivery + Cloud segment, comprising Sacon Pty Ltd, is involved in consulting and implementation of services around unified communications, conferencing and messaging, contact centre solutions and secure voice technologies.
Defend + Secure	The Defend + Secure segment, comprising Pure Hacking Pty Ltd, Securus Global Consulting Pty Ltd, Hacklabs Pty Ltd and Certitude Pty Ltd, is involved in services and consulting around reducing operational, financial, reputational risk and digital security matters.

Intersegment transactions

There were no material transactions between operating segments.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Note 2. Operating segments (continued)

Revenue Categorised

Revenue is generated by the group and is categorised into the reportable segments disclosed below. Sales to external customers is recognised when the performance obligations are delivered over time. Once a contract has been entered into, the Group has an enforceable right to payment for work completed to date. Therefore, revenue is recognised over time.

Operating segment information

	Discovery + Insights	Design + Process	Delivery + Cloud	Defend + Secure	Corporate	Discontinued Operations	Total
Consolidated Group - 2019	\$	\$	\$	\$	\$	\$	\$
Revenue							
Sales to external customers	6,921,212	53,705,150	6,266,855	16,407,687	-	4,599,013	87,899,917
Total revenue	<u>6,921,212</u>	<u>53,705,150</u>	<u>6,266,855</u>	<u>16,407,687</u>	<u>-</u>	<u>4,599,013</u>	<u>87,899,917</u>
EBITDA	1,026,238	4,721,162	534,424	3,140,738	(8,218,763)	(924,451)	279,348
Depreciation and amortisation	(204)	(34,584)	(6,815)	(187,671)	(108,794)	(64,023)	(402,091)
Impairment of assets	-	-	-	-	(49,629,677)	-	(49,629,677)
Loss on disposal of discontinued operation	-	-	-	-	(3,360,521)	-	(3,360,521)
Interest revenue	-	1,445	252	50	11,700	-	13,447
Finance costs	-	134	847	3,506	1,044,642	6,380	1,055,509
Deferred consideration adjustments	-	-	-	-	(1,070,008)	-	(1,070,008)
Profit/(loss) before income tax expense	<u>1,026,034</u>	<u>4,688,157</u>	<u>528,708</u>	<u>2,956,623</u>	<u>(61,331,421)</u>	<u>(982,094)</u>	<u>(53,113,993)</u>
Income tax expense							(375,320)
Loss after income tax expense							<u>(53,489,313)</u>
Assets							
Segment assets	1,036,389	9,818,014	2,126,416	5,029,712	50,523,815	-	68,534,346
Total assets							<u>68,534,346</u>
Liabilities							
Segment liabilities	867,289	8,053,117	998,472	2,900,718	22,271,239	-	35,090,835
Total liabilities							<u>35,090,835</u>

Note 2. Operating segments (continued)

	Discovery + Insights	Design + Process	Delivery + Cloud	Defend + Secure	Corporate	Discontinued Operations	Total
Consolidated Group - 2018	\$	\$	\$	\$	\$	\$	\$
Revenue							
Sales to external customers	1,460,575	42,080,796	5,831,535	13,812,710	-	15,165,550	78,351,166
Total revenue	<u>1,460,575</u>	<u>42,080,796</u>	<u>5,831,535</u>	<u>13,812,710</u>	<u>-</u>	<u>15,165,550</u>	<u>78,351,166</u>
EBITDA	(1,402,033)	4,141,248	1,953,022	2,142,074	(6,491,765)	1,638,923	1,981,469
Depreciation and amortisation	-	(19,682)	(9,409)	(142,871)	(59,365)	(169,921)	(401,248)
Impairment of assets	-	-	-	-	(9,612,395)	-	(9,612,395)
Interest revenue	-	2,081	5,152	95	27,702	341	35,371
Finance costs	-	(67)	(2,411)	-	(1,348,779)	(14,785)	(1,366,042)
Profit/(loss) before income tax expense	<u>(1,402,033)</u>	<u>4,123,580</u>	<u>1,946,354</u>	<u>1,999,298</u>	<u>(17,484,602)</u>	<u>1,454,558</u>	<u>(9,362,845)</u>
Income tax expense							(792,970)
Loss after income tax expense							<u>(10,155,815)</u>
Assets							
Segment assets	1,154,826	9,738,849	1,718,498	4,090,907	104,079,600	4,463,638	125,246,318
Total assets							<u>125,246,318</u>
Liabilities							
Segment liabilities	508,724	5,331,280	693,318	2,526,701	30,145,749	5,060,575	44,266,347
Total liabilities							<u>44,266,347</u>

Revenue by geographical area

There are no material sales to external customers outside of Australia.

There are no material holdings of non-current assets outside of Australia.

Note 3. Revenue

	Consolidated Group	
	2019	2018
	\$	\$
From continuing operations		
<i>Revenue from contracts with customers</i>		
Sale of services	80,768,952	60,932,885
Sale of goods	2,518,690	2,220,313
	<u>83,287,642</u>	<u>63,153,198</u>
<i>Other revenue</i>		
Other revenue	13,262	40
Revenue from continuing operations	<u>83,300,904</u>	<u>63,153,238</u>

Note 3. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated Group	
	2019	2018
	\$	\$
<i>Major sales/service lines</i>		
Software Sales	2,518,690	2,200,313
Penetration Testing	4,935,727	2,922,633
Contractor Management	3,492,277	5,873,590
Recruitment Revenue	6,176,852	10,290,454
Business Transformation	5,430,387	3,311,340
Consulting Revenue	60,733,709	38,554,868
	<u>83,287,642</u>	<u>63,153,198</u>
<i>Geographical regions</i>		
Australia	<u>83,287,642</u>	<u>63,153,198</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	2,518,690	2,200,313
Services transferred over time	<u>80,768,952</u>	<u>60,952,885</u>
	<u>83,287,642</u>	<u>63,153,198</u>

Note 4. Other income

	Consolidated Group	
	2019	2018
	\$	\$
Net gain/(loss) on disposal of property, plant and equipment	-	12,901
Interest income	<u>13,447</u>	<u>35,029</u>
Other income	<u>13,447</u>	<u>47,930</u>

Note 5. Discontinued operations

Description

On 22 November 2018, the group announced that it had successfully divested the Allcom Networks business to Crosspoint Telecommunications Pty Ltd, a business technology solutions provider offering comprehensive end-to-end managed IT solutions in voice, video, managed IT services and professional services. The decision to divest the Allcom Networks business was based on the group's view that the business was not cohesively aligned to its core strategy. The group is fundamentally an information technology services business delivering specialised services to its clients.

As a result of the sale transaction outlined above, the financial result of the business to be divested and associated group reclassification and consolidation impacts are treated as discontinued operations from a financial reporting perspective. This impacts the current and comparative financial information for the Delivery + Cloud segment.

Details of the financial performance, cash flows and the carrying value of the assets and liabilities of the discontinued operations are shown below.

Note 5. Discontinued operations (continued)

Financial performance information

	Consolidated Group	
	2019	2018
	\$	\$
Revenue from discontinued operations	4,599,013	15,197,928
Interest income	-	341
Other income from discontinued operations	136,707	-
Total other income	136,707	341
Operating expenses from discontinued operations	(5,660,171)	(13,503,641)
Depreciation and amortisation expense from discontinued operations	(64,023)	(169,921)
Other expenses from discontinued operations	-	(55,364)
Finance costs	(6,380)	(14,785)
Total expenses	(5,730,574)	(13,743,711)
Profit/(loss) before income tax (expense)/benefit	(994,854)	1,454,558
Income tax (expense)/benefit	290,383	(437,734)
Profit/(loss) after income tax (expense)/benefit	(704,471)	1,016,824
Loss on disposal before income tax	(3,360,521)	-
Income tax expense	-	-
Loss on disposal after income tax expense	(3,360,521)	-
Profit/(loss) after income tax (expense)/benefit from discontinued operations	(4,064,992)	1,016,824

Cash flow information

	Consolidated Group	
	2019	2018
	\$	\$
Net cash from/(used in) operating activities	58,901	(84,034)
Net cash used in investing activities	(4,381)	(35,540)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	54,520	(119,574)

Note 5. Discontinued operations (continued)

Carrying amounts of assets and liabilities disposed

	Consolidated Group 2019 \$
Cash and cash equivalents	178,193
Trade and other receivables	2,342,040
Inventories	18,414
Other current assets	706,581
Property, plant and equipment	552,874
Other non-current assets	296,837
Total assets	<u>4,094,939</u>
Trade and other payables	3,166,861
Provisions	740,102
Other liabilities	721,176
Total liabilities	<u>4,628,139</u>
Net liabilities	<u>(533,200)</u>

Details of the disposal

	Consolidated Group 2019 \$
Total sale consideration	3,200,000
Carrying amount of net liabilities disposed	533,200
Working capital adjustment	(2,109,484)
Derecognition of investment in discontinued operations	(4,722,201)
Subsequent adjustments	<u>(262,036)</u>
Loss on disposal before income tax	<u>(3,360,521)</u>
Loss on disposal after income tax	<u>(3,360,521)</u>

Note 6. Non-current assets - intangibles

	Consolidated Group 2019 \$	2018 \$
Goodwill - at cost	<u>47,256,427</u>	<u>100,046,002</u>

Note 6. Non-current assets - intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

	Goodwill	Total
	\$	\$
Consolidated Group		
Balance at 1 July 2017	92,802,606	92,802,606
Additions through business combinations (note 12)	16,855,791	16,855,791
Impairment of assets	(9,612,395)	(9,612,395)
Balance at 30 June 2018	100,046,002	100,046,002
Additions through business combinations (note 12)	1,562,756	1,562,756
Disposals	(4,722,200)	(4,722,200)
Impairment of assets	(49,629,677)	(49,629,677)
Write off of assets	(454)	(454)
Balance at 30 June 2019	<u>47,256,427</u>	<u>47,256,427</u>

Impairment testing for goodwill

For the purposes of impairment testing, goodwill is allocated to the consolidated entity's cash-generating units (CGU's) as follows:

	Consolidated Group	
	2019	2018
	\$	\$
Design + Process	28,864,579	51,329,627
Delivery + Cloud	2,382,413	14,887,381
Defend + Secure	16,009,435	33,828,994
Total	<u>47,256,427</u>	<u>100,046,002</u>

The group undertakes impairment testing of the relevant businesses as required. Impairment testing was performed at 30 June 2019 to support the carrying value of goodwill. The recoverable amount was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the business. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using projected cash flows approved by the board covering year 1. The present value of future cash flows for years 2 to 5 have been calculated using a terminal growth rate of 1.5% (2018: 3%) and a discount rate of 19.5% (2018: 16.5%) has been used to determine value in use. In addition, average EBITDA growth rates used for years 2 to 5 was -4%.

The estimated recoverable amount exceeded the carrying value for each CGU by the following amounts:

	Consolidated Group	
	2019	2018
	\$	\$
Design + Process	-	17,518,098
Delivery + Cloud	-	20,629,513
Defend + Secure	-	-
Total	<u>-</u>	<u>38,147,611</u>

Note 6. Non-current assets - intangibles (continued)

Impairment

The Board of Directors has taken a conservative approach to the group's impairment valuations in line with the approach taken at 31 December 2018. This approach has involved a review of the group's methodology and has resulted in the allocation of increased corporate costs to the CGUs at 30 June 2019, revised long term forecasts based on changes in economic conditions, increased weighted average cost of capital to 19.5% and the reassessment of long term growth rates to 1.5%. These changes have led to an impairment loss of \$49,629,677 being recognised in the profit and loss for the group whereby the carrying amount of the CGUs exceeded the recoverable amount based on long term forecasts. The breakdown of the impairment loss by CGU is as follows:

- Design + Process CGU: \$27,010,148
- Defend + Secure CGU: \$14,836,762
- Delivery + Cloud CGU: \$7,782,767

Impact of a Reasonably Possible Change in Key Assumptions:

Following the impairment loss recognised in the group's Design + Process, Defend + Secure and Delivery + Cloud CGU's, the recoverable amounts were equal to the carrying amounts. Therefore, any adverse movement in a key assumption would lead to further impairment.

Note 7. Current liabilities - borrowings

	Consolidated Group	
	2019	2018
	\$	\$
Bank loans	<u>10,300,000</u>	<u>12,902,026</u>

The borrowings of the group are classified as current liabilities as at 30 June 2019 as the agreement with ANZ bank ('the Lender') expires on 10 December 2019.

As at 30 June 2019, the group had total debt obligations of \$10,300,000 owing to the ANZ bank which incorporates various financial covenants. In June 2019, the group did not meet the minimum EBITDA under the banks defined requirements of its financing facility or the debt to EBITDA ratio and therefore has breached both financial covenants.

As a result, the group did not have an unconditional right to defer settlement of its loan facilities for at least 12 months from reporting date.

In July 2019, the group entered into a receivables backed financing facility with Scottish Pacific Business Finance Pty Ltd ('Scottish Pacific'). The facility has a funding limit of \$15,000,000. The group used \$5,000,000 of the new Scottish Pacific facility to pay down the existing ANZ facility in July 2019 - Refer note 13: Subsequent Events.

Total secured liabilities

The total secured current liabilities are as follows:

	Consolidated Group	
	2019	2018
	\$	\$
Bank loans	<u>10,300,000</u>	<u>12,902,026</u>

Note 7. Current liabilities - borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated Group	
	2019	2018
	\$	\$
Total facilities		
Bank Loans	10,300,000	16,450,000
Credit Card Facility	325,000	575,000
Indemnity/Guarantee Facilities	500,000	500,000
Electronic Payaway Facility	500,000	500,000
	<u>11,625,000</u>	<u>18,025,000</u>
Used at the reporting date		
Bank Loans	10,300,000	12,902,026
Credit Card Facility	79,230	105,919
Indemnity/Guarantee Facilities	459,954	491,298
Electronic Payaway Facility	-	-
	<u>10,839,184</u>	<u>13,499,243</u>
Unused at the reporting date		
Bank Loans	-	3,547,974
Credit Card Facility	245,770	469,081
Indemnity/Guarantee Facilities	40,046	8,702
Electronic Payaway Facility	500,000	500,000
	<u>785,816</u>	<u>4,525,757</u>

There is a corporate cross-deed of guarantee between the parent company and all subsidiaries ("General Security Agreement") which is secured by all present and after-acquired property.

Note 8. Current liabilities - deferred consideration

	Consolidated Group	
	2019	2018
	\$	\$
Deferred consideration	<u>7,108,502</u>	<u>10,316,262</u>

The deferred consideration represents the obligation to pay consideration following the acquisition of a business or assets. It is measured at the present value of the estimated liability.

Note 9. Non-current liabilities - contingent consideration

	Consolidated Group	
	2019	2018
	\$	\$
Contingent consideration	<u>1,630,434</u>	<u>4,498,503</u>

Note 9. Non-current liabilities - contingent consideration (continued)

Contingent consideration

The provision represents the obligation to pay contingent consideration following the acquisition of a business or assets, the majority of which may be satisfied by way of an issue of shares in PS&C Ltd. It is measured at the present value of the estimated liability. The contingent consideration liability is reassessed at each reporting date against revised estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Contingent Consideration \$
Consolidated Group - 2019	
Carrying amount at the start of the year	4,498,503
Additional provisions recognised	1,431,902
Amounts transferred to current	(1,801,468)
Unwinding of discount	7,743
Unused amounts reversed	(2,506,246)
Carrying amount at the end of the year	<u>1,630,434</u>

Note 10. Non-current liabilities - Deferred consideration

	Consolidated Group	
	2019 \$	2018 \$
Deferred consideration	<u>995,295</u>	<u>1,750,000</u>

Deferred consideration represents the obligation to pay outstanding consideration following the acquisition of a business or assets. It is measured at the present value of the estimated liability.

Note 11. Equity - Issued capital

	Consolidated Group			
	2019 Shares	2018 Shares	2019 \$	2018 \$
Ordinary shares - fully paid	<u>250,116,958</u>	<u>204,245,421</u>	<u>91,207,294</u>	<u>85,029,409</u>

Note 11. Equity - Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	70,113,762		58,643,072
Issue of shares on Acquisition of Sacon and Coroma	07 July 2017	14,000,000	\$0.25	3,463,012
Issue of shares to Moonah Capital Partners in satisfaction of consulting fees	07 July 2017	285,782	\$0.25	70,690
Issue of shares in satisfaction of Earn Out to Bexton	24 November 2017	10,666,071	\$0.26	2,823,309
Issue of shares on Acquisition of Sacon	24 November 2017	5,008,139	\$0.25	1,288,213
Issue of shares on Acquisition of Coroma	24 November 2017	6,451,900	\$0.25	1,596,200
Capital raise - Tranche 1	08 December 2017	15,978,848	\$0.20	3,195,770
Capital raise - Tranche 2	31 January 2018	11,521,152	\$0.20	2,304,230
Capital raise costs		-	\$0.00	(363,217)
Shares issued in completion of Share Purchase Plan	02 February 2018	2,150,000	\$0.20	430,000
Issue of shares to Moonah Capital Partners in satisfaction of consulting fees	02 February 2018	1,140,650	\$0.20	228,130
Issue of shares on Acquisition of Seisma	12 June 2018	63,823,527	\$0.17	10,850,000
Issue of shares on Acquisition of NTH	12 June 2018	3,105,590	\$0.16	500,000
Balance	30 June 2018	204,245,421		85,029,409
Issue of shares in satisfaction of Earn out Payments to Bexton	17 October 2018	15,407,882	\$0.15	2,341,996
Issue of shares in satisfaction of Earn out Payments to Sacon	17 October 2018	19,177,632	\$0.15	2,915,000
Issue of shares for Performance Rights	17 October 2018	4,309,592	\$0.00	-
Issue of shares on Acquisition of Artisan	20 February 2019	6,976,431	\$0.13	920,889
Balance	30 June 2019	<u>250,116,958</u>		<u>91,207,294</u>

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Note 12. Business combinations

(a) Current Period

Artisan Consulting Pty Ltd

On 1 February 2019, PS&C Ltd acquired 100% of the ordinary shares of Artisan Consulting Pty Ltd. This business is exclusively focussed on Salesforce solutions and is currently a Salesforce Silver Tier System Implementation / Consulting Partner servicing mid-large enterprises. It operates in the Design + Process division of the group. Details of the purchase consideration, the net assets acquired and goodwill are set out below. The goodwill of \$1,562,756 represents the amount of consideration paid for the business acquisition less fair value of net assets, plus additional amounts paid for performance, both current and implied by forecasts. The acquired business contributed revenue of \$506,406 and profit after tax of \$108,131 from 1 February 2019 to 30 June 2019. If the acquisition occurred on 1 July 2018, the full year contribution would have been a profit after tax of \$260,755.

Under the terms of the agreement, the parent entity may have to pay more (or less) than what has been provided for in contingent consideration if the entity's operating performance is better (or worse) than forecast for the purposes of calculating contingent consideration. The Directors are still assessing any potential impacts to the total consideration transferred whilst within the measurement period.

Note 12. Business combinations (continued)

Details of the acquisition are as follows:

	Artisan Consulting Pty Ltd Fair value \$	Total Acquired Fair value \$
Cash and cash equivalents	118,918	118,918
Trade receivables	56,513	56,513
Other payables	(41,549)	(41,549)
Provision for income tax	(35,045)	(35,045)
Employee benefits	(20,590)	(20,590)
Net assets acquired	78,247	78,247
Goodwill	1,562,756	1,562,756
Acquisition-date fair value of the total consideration transferred	<u>1,641,003</u>	<u>1,641,003</u>
Representing:		
Cash paid or payable to vendor	240,000	240,000
PS&C Ltd shares issued to vendor	920,889	920,889
Deferred consideration	480,114	480,114
	<u>1,641,003</u>	<u>1,641,003</u>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,641,003	1,641,003
Less: cash and cash equivalents	(118,918)	(118,918)
Less: deferred consideration	(480,114)	(480,114)
Less: shares issued by company as part of consideration	(920,889)	(920,889)
Net cash used	<u>121,082</u>	<u>121,082</u>

Acquisition costs expensed to the statement of profit or loss and other comprehensive income during the year ended 30 June 2019 amounted to \$645,036 (2018: \$402,526) for services provided by consultants and legal advisers as well as share issue costs. This was incurred in relation to existing businesses and prospective transactions.

During the year ending 30 June 2019, cash payments of \$3,090,448 were made to the vendors of the businesses acquired in prior periods, in satisfaction of business purchase and earn out payments as per the terms of the share sale and purchase agreements. In addition, \$5,256,998 worth of PS&C Ltd shares (equal to 34,585,514 shares) were issued in satisfaction of business purchase and earn out payments, as per the terms of the share sale and purchase agreements.

(b) Prior Period

Seisma Pty Ltd

On 1 March 2018, PS&C Ltd acquired 100% of the ordinary shares of Seisma Pty Ltd. This is an IT consulting business and operates in the Design + Process division of the group. Details of the purchase consideration, the net assets acquired and goodwill are set out below. The goodwill of \$13,872,995 represents the amount of consideration paid for the business acquisition less fair value of net assets, plus additional amounts paid for performance, both current and implied by forecasts. The acquired business contributed revenue of \$7,245,190 and profit after tax of \$533,189 from 1 March 2018 to 30 June 2018. If the acquisition occurred on 1 July 2017, the full year contribution would have been a profit after tax of \$1,470,702.

Note 12. Business combinations (continued)

NTH Consulting Pty Ltd

On 1 May 2018, PS&C Ltd acquired 100% of the ordinary shares of NTH Consulting Pty Ltd. This is an IT consulting business and operates in the Design + Process division of the group. Details of the purchase consideration, the net assets acquired and goodwill are set out below. The goodwill of \$2,982,796 represents the amount of consideration paid for the business acquisition less fair value of net assets, plus additional amounts paid for performance, both current and implied by forecasts. The acquired business contributed revenues of \$615,259 and profit after tax of \$72,538 from 1 May 2018 to 30 June 2018. If the acquisition occurred on 1 July 2017, the full year contribution would have been a loss after tax of \$70,655.

Details of the acquisition are as follows:

	Seisma Pty Ltd Fair value \$	NTH Consulting Pty Ltd Fair value \$	Total Acquired Fair value \$
Cash and cash equivalents	918,777	150,373	1,069,150
Trade receivables	3,259,794	161,630	3,421,424
Other receivables	36,371	-	36,371
Prepayments	5,649	-	5,649
Security deposits	34,622	-	34,622
Other non-current assets	-	746	746
Trade payables	(3,149,007)	(86,508)	(3,235,515)
Other payables	(184,922)	(192,723)	(377,645)
Employee benefits	(4,272)	(15,104)	(19,376)
Other liabilities	(1,225,854)	(99,989)	(1,325,843)
Net liabilities acquired	(308,842)	(81,575)	(390,417)
Goodwill	13,872,995	2,982,796	16,855,791
Acquisition-date fair value of the total consideration transferred	<u>13,564,153</u>	<u>2,901,221</u>	<u>16,465,374</u>
Representing:			
Cash paid or payable to vendor	-	500,000	500,000
PS&C Ltd shares issued to vendor	10,850,000	500,000	11,350,000
Deferred consideration	2,714,152	-	2,714,152
Contingent consideration - current	-	1,710,432	1,710,432
Contingent consideration - non-current	-	190,790	190,790
	<u>13,564,152</u>	<u>2,901,222</u>	<u>16,465,374</u>
Cash used to acquire business, net of cash acquired:			
Acquisition-date fair value of the total consideration transferred	13,564,152	2,901,222	16,465,374
Less: cash and cash equivalents	(918,777)	(150,373)	(1,069,150)
Less: deferred consideration	(2,714,152)	-	(2,714,152)
Less: shares issued by company as part of consideration	(10,850,000)	(500,000)	(11,350,000)
Less: contingent consideration	-	(1,901,222)	(1,901,222)
Net cash used/(received)	<u>(918,777)</u>	<u>349,627</u>	<u>(569,150)</u>

Note 12. Business combinations (continued)

	Consolidated Group	
	2019	2018
	\$	\$
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,641,003	16,465,374
Less: cash and cash equivalents	(118,918)	(1,069,150)
Less: contingent consideration	-	(1,901,222)
Less: shares issued by company as part of consideration	(920,889)	(11,350,000)
Less: deferred consideration	(480,114)	(2,714,152)
Net cash used/(received)	<u>121,082</u>	<u>(569,150)</u>

Note 13. Events after the reporting period

The group has entered into an agreement with Scottish Pacific Business Finance Pty Ltd ('Scottish Pacific') to provide a receivables backed financing facility. The Scottish Pacific facility has a funding limit up to \$15,000,000. The facility became available on 9 July 2019.

As at 30 June 2019, the group had total debt obligations of \$10,300,000 owing to ANZ bank ('the Lender'). \$5,000,000 of the new Scottish Pacific facilities has been directed to reduce the exposure to the ANZ bank. A new loan agreement has therefore been entered into with ANZ bank dated 5 July 2019. The termination date of this new agreement with ANZ bank is 10 December 2019.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

